BEFORE THE
Federal Communications Commission
WASHINGTON, D.C.

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Low-Volume Long Distance Users	)	CC Docket No. 99-249
	)	
Federal-State Joint Board On Universal Service	)	CC Docket No. 96-45

JOINT COMMENTS OF THE ASSOCIATION FOR LOCAL TELECOMMUNICATIONS SERVICES AND TIME WARNER TELECOM

Brian Conboy
Thomas Jones
WILLKIE FARR & GALLAGHER
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20036
(202) 328-8000

ATTORNEYS FOR TIME WARNER TELECOM

Jonathan Askin, General Counsel
Teresa K. Gaugler, Attorney
Association for Local Telecommunications Services
888 17th Street, N.W., Suite 900
Washington, D.C. 20006
(202) 969-2587

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On July 29, 1999, the Coalition for Affordable Local and Long Distance Services ("CALLS") filed with the FCC a proposal for the reform of access charges, price caps, and universal service ("Original Proposal"). In response to criticisms from consumer groups, regulators, and other carriers, CALLS submitted a modified proposal to the Commission on March 8, 2000 ("Modified Proposal"). The Association for Local Telecommunications Service ("ALTS")[1] and Time Warner Telecom ("TWTC")[2], hereby file these comments on the Modified Proposal.

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1 ALTS is the leading national industry association whose mission is to promote facilities-based local telecommunications competition. Created in 1987, ALTS has offices in Washington, D.C. and Irvine, California and now represents more than 200 companies that build, own, and operate competitive local networks.

2 Time Warner Telecom is a leading optical network, facilities-based provider of integrated telecommunications solutions for businesses. The Company currently serves

I. INTRODUCTION AND SUMMARY

There should be no dispute that the most appropriate way of reforming access charges, price caps, and universal service is for the Commission to make independent policy decisions as to each of the issues involved in such reform. Unfortunately, proposals such as the one adopted by the CALLS members almost always contain accommodations to the specific interests of the negotiating parties that would not survive independent regulatory review. In the instant case, for example, the ILECs seem to have foregone opposition to excessive access charge rate reductions in return for the IXCs' agreement to target such reductions at services for which the ILECs face the most competition. The appropriate response from the Commission to such a compromise is to consider whether each of its component parts individually benefits consumers and makes efficient outcomes more likely. Any aspect of the CALLS proposal that fails this test should not be acceptable simply because the ILEC and IXC members of CALLS have agreed to it as part of their private compromise.

Not surprisingly, there are many aspects of the Modified Proposal that have little basis in sound policy. For example, it is simply too soon to abandon the Commission's reliance on competition to eliminate whatever implicit subsidies may exist in the current interstate access charge rates. There are signs that competition is beginning to perform this task better than prescriptive rate reductions ever could. In addition, the kind

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business customers with last-mile broadband connections for of flash-cut reductions in access charges included in the Modified Proposal will almost certainly raise the cost of capital (and therefore raise entry barriers) for facilities-based entrants as they attempt to compete with lower priced ILEC access charges. This effect should concern policy makers because only facilities-based entrants deliver innovation and lower cost curves to consumers of local service, and only facilities-based competition can ultimately render regulation unnecessary. There is also no basis for concluding that the X-factor has historically understated ILEC productivity and that a one-time increase in the X-factor effective in July 2000 (as the Modified Proposal would require) is appropriate. Nor is there any basis for targeting X-factor reductions to specific rate elements, let alone specifically to usage-based rate elements (as the Modified Proposal would also require). Finally, the $650 million universal service fund proposed by CALLS appears to be based on implausibly high loop cost estimates.

Thus, ALTS and TWTC fundamentally object to both the process and substance of the Modified Proposal. Nevertheless, in the event that the Commission insists upon addressing access charges, price caps, and universal service in the context of an omnibus negotiated proposal, there are certain adjustments that should be made to at least increase the likelihood that the Modified Proposal will benefit consumers and permit efficient, facilities-

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data, Internet, and voice in 21 U.S. markets.

based competition to develop. ALTS and TWTC have devised a plan that achieves these objectives. The ALTS/TWTC Plan would:

- restructure the common line elements by eliminating the primary line residential and single line business presubscribed interexchange carrier charge ("PICC") and raising the residential subscriber line charge ("SLC") cap to $4.35, as proposed by the Modified Proposal, <u>but</u> further increases above $4.35 would be unnecessary;

- rather than target the 6.5% X-factor at rate elements in the switching and transport baskets (the Average Traffic Sensitive or "ATS" rate elements), as proposed by CALLS, apply the X-factor on a 50/50 basis to the common line basket and the ATS elements, targeting reductions within the common line basket at the carrier common line charge ("CCLC") and the multi-line business PICC ("MLB PICC");

- apply a reduced one-time additional reduction in access charges of approximately $200 million on a 50/50 basis to the common line and the ATS elements, rather than entirely to the ATS elements as CALLS proposes;

- establish a universal service fund of $300 million;

- once the CCLC and the MLB PICC have been eliminated, target future X-factor reductions to ATS elements until the target ATS rates of $.0055 for GTE and the BOCs and $.0065 for other price cap ILECs are reached, as proposed in the Modified Proposal.

While far from perfect, this plan would more effectively ensure that consumers benefit in the short term through lower rates and in the long term through facilities-based local entry than would the Modified Proposal. At the same time, the ALTS/TWTC Plan retains nearly 90% of the overall ILEC access charge rate reductions contained in the Modified Proposal and nearly 85% of the overall reductions in PICCs and per minute rates paid by long distance carriers contained in the Modified Proposal (albeit differently distributed between PICCs and per minute rates). As a result of the reductions in PICCs and per minute charges paid by long distance carriers, long distance rates could be reduced by approximately $1.3 billion on July 1, 2000, or about, $400 million more than under price caps today (assuming a 6.5% X-factor). But the ALTS/TWTC Plan also flows through ILEC productivity benefits directly to consumers by obviating the need for increases above $4.35 in the SLC for primary line residential and single line business lines. The CALLS Plan, on the other hand, results in higher SLCs for these lines and in no way guarantees that lower per minute charges will be passed through to low-usage long distance customers.[3]

II. THE MODIFIED PROPOSAL SHOULD NOT BE ADOPTED IN ITS CURRENT FORM.

The Modified Proposal must be understood for what it is: a highly flawed deal brokered for the purpose of advancing the specific interests of the ILEC and IXC members of CALLS. The accommodations these parties have made to one another are readily apparent in the proposal. The IXC members of CALLS have been vocal proponents of abandoning the Commission's price-cap plan in favor of rapid movement to TELRIC-based access charges. For the ILECs, targeting all productivity gains to the most competitive services, while establishing a substantial universal service fund and increasing residential subscriber line charges, essentially shelters significant revenue from the threat of competition. Apparently, these two groups of parties see substantial benefits

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3 Attached as an exhibit to these comments is a comparison of the overall effect on access charges and universal service of the ALTS/TWTC Plan and the Modified Proposal.

in accommodating one anothers' self-interests. The Commission, however, must be sure that this settlement does not accommodate such legacy interests in a way that offers only illusory consumer benefits and undermines the prospects for facilities-based competition. In other words, the Commission must weigh the merits of each individual component of the Modified Proposal. No aspect of the proposal that would otherwise diminish the likelihood of efficient outcomes or otherwise harm consumer welfare should be adopted simply because it has been presented to the Commission as part of a negotiated proposal.

The salient features of the Modified Proposal are as follows. The plan would consolidate the primary line residential/single line business PICC and SLC into a SLC capped initially at $4.35. That cap would rise eventually to $6.50. In addition, the Modified Proposal would lower ATS and the CCLC much more quickly than would be the case under the current price cap rules (assuming the continued application of a 6.5% X-factor).[4] The plan requires that price cap ILECs reduce their ATS/CCLC charges by $2.1 billion on July 1, 2000. This is achieved by the creation of a new $650 million universal service fund which is paid to ILECs <u>in lieu</u> of the CCLC, the targeting of the 6.5% X-factor to ATS elements, and an additional one-time reduction to ATS charges over and above the X-factor targeting. This $2.1

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4 Although the Commission is reconsidering the 6.5% X-factor on remand from the D.C. Circuit in <u>United States Tel. Ass'n v. FCC</u>, 188 F.3d 521 (D.C. Cir. 1999), these comments assume for purposes of discussion that the 6.5% X-factor continues to apply.

billion reduction, by itself, will result in approximately a 35% reduction in ATS/CCLC rates, including at least a nearly 30% reduction to local switching charges.[5] In contrast, if the Commission were to apply the 6.5% X-factor using current price cap rules, ATS/CCLC would be reduced by about 15%. Moreover, the plan requires that in subsequent years the entire X-factor will continue to be targeted at ATS rate elements until the target per minute ATS rates of $.0055 for the BOCs and GTE and $.0065 for other price cap ILECs are reached. Finally, while not technically part of the Modified Proposal, AT&T and Sprint have proffered conditional commitments that they would eliminate minimum usage charges for low-usage customers if the Modified Proposal is adopted.

To be sure, there are some aspects of this proposal that make good sense, in particular, the consolidation of the primary line residential/single line business PICC and SLC. This change will reduce customer confusion and will ensure that common line costs are recovered from the end users that cause them to be incurred.

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5 The estimates provided in these comments are based on an analysis of publicly available price cap ILEC price and revenue information. See Trends in Telephone Services, March 2000. In some cases, ALTS and TWTC have been forced to rely on assumptions that may prove to be incorrect. Obviously, the proposals made in these comments would need to be adjusted to account for inaccuracies in the estimates provided herein. Unfortunately, this situation could not be avoided, since CALLS provided very little detail regarding price cap ILEC prices and revenues in support of its Modified Proposal and that information is not readily available from other sources.

But there are many aspects of the Modified Proposal for which there is little or no objective support, that would diminish the likelihood of facilities-based local entry and the efficiencies such entry delivers, and that offer nothing more than illusory consumer benefits. First, it is simply too early in the development of competition for the Commission to abandon its reliance on competition to drive down access charge prices and to eliminate any implicit subsidies that might exist.[6] That approach will, as the Commission has concluded, ensure more efficient outcomes than the kind of regulatory prescription contained in the Modified Proposal. See id. As TWTC has recently demonstrated, there are strong indications that market forces will soon drive out any inefficiencies that may exist in the current scheme.[7]

Second, targeting rate reductions to the ATS rate elements makes no sense. Such an approach would only be appropriate if the X-factor failed to capture the relative levels of productivity among the various access rate elements. In other words, if the X-factor lowers access charge rates in a manner that reflects the extent (if any) to which ATS rate elements' productivity has outpaced other rate elements such as those in

6 See Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Transport Rate Structure and Pricing; End User Common Line Charges, First Report and Order, 12 FCC Rcd 15982, ¶ 46 (1997) (adopting a market-based approach to eliminating implicit subsidies in interstate access charges).

7 See Comments of TWTC in CC Docket Nos. 96-262, 94-1, CCB/CPD File No. 98-63 (Oct. 29, 1999) at 4-15.

the common line, then the targeting approach in the Modified Proposal cannot be justified. But there is every reason to believe that the X-factor fully accounts for all increases in productivity. For example as Professor William Taylor recently concluded:

> as long as the relationships among line growth and minutes growth are approximately constant over time, their effects are fully reflected in the value of X necessary to keep prices at a level that maintains constant earnings. Moreover, since 1997, the X-factor has been determined based on direct measurement of industry total factor productivity ("TFP") growth, which incorporates the effects of overall productivity growth of all inputs. All costs and revenues are captured in this measurement of the X-factor.[8]

There is no reason to believe that minutes growth and line growth have been disproportionate. Moreover, it is clear that, since 1997, all gains in productivity (even those that might be characterized as faster for one element than another) are reflected in the X-factor. The difference in growth rates among different elements is precisely what the TFP-based X-factor captures. See id. at 20. Indeed, ILEC members of CALLS have argued vigorously that the current X-factor rules fully capture the productivity in growth for all ILEC access output.[9] In all

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8 See Comments of William E. Taylor on behalf of USTA at 5, filed in support of USTA's Comments in CC Docket Nos. 96-262, 94-1, CCB/CPD File No. 98-63 (Oct. 29, 1999).

9 See, e.g., Comments of GTE in CC Docket Nos. 96-262, 94-1, CCB/CPD File No. 98-63 (Oct. 29, 1999) at 39-40 ("[T]he Commission should not attempt to adjust for the growth of any particular service -- such as local switching -- through an adjustment factor [to the X-factor]. . . . [T]he measure used to develop X has already taken into account the actual growth in output -- including the growth in local switching minutes -- in the past. No further adjustment for the growth in any given output is needed, or appropriate.

events, there is no basis for the Commission to adopt the X-factor targeting aspect of the Modified Proposal simply because certain parties have agreed to do so in their own self-interests.

Third, the targeting approach in the Modified Proposal would reduce the likelihood that efficient facilities-based local entry will occur. In the current phase of the development of competition, facilities-based CLECs such as TWTC and other ALTS members serve large and medium sized businesses. Since the vast majority of the access revenues associated with these customers is in the form of per minute charges, the Modified Proposal would directly target a major source of CLEC revenue. This will unquestionably raise the risk associated with CLEC investment, causing CLECs' cost of capital to increase and reducing available resources for expanded entry. Yet without such entry, the Commission will remain reliant on just the kind of price cap and access charge regulations that have proven so difficult to administer.

Fourth, the Modified Proposal also harms consumers, as it would deny them the benefit of productivity gains in the local

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Because TFP is measured on a total company basis, and cannot usefully be disaggregated to specific services, it is not reasonable for the Commission to attempt to 'assign' the presumed benefits of growth to any given service."); Reply Comments of Bell Atlantic in CC Docket Nos. 96-262, 94-1, CCB/CPD File No. 98-63 (Oct. 29, 1999) at 8-9 (stating that IXCs had provided "no evidence" that switching productivity had outpaced gains in other access categories and stating further that "the Commission's X-factor is based on an analysis of total company productivity, not productivity in any particular service. Given the shared use of facilities, there is no legitimate economic basis for calculating productivity separately for a particular service.").

loop by funding the elimination of the MLB PICC through residential SLC increases of up to $6.50, rather than through application of common line productivity factor. Application of the common line X-factor to the MLB PICC[10] (as the ALTS/TWTC Plan would) rather than ATS elements would cause the PICCs to be eliminated without increases in the SLC.

Some may counter that targeting reductions to the ATS and CCLC charges benefits consumers through lower long-distance prices. Yet the IXC members of CALLS have not committed to how much of the access charge reductions will flow to lower long-distance rates for low-volume residential consumers versus high-volume residential and business consumers. It is not at all clear that the lower long-distance rates to low-volume consumers would offset SLC increases up to $6.50 per month.

<u>Fifth</u>, the extra one-time additional reduction in usage-based elements proposed by CALLS in order to reach the goal of $2.1 billion is also arbitrary.[11] CALLS offers no basis for concluding that the past X-factors have not accurately captured

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10 For the purpose of this discussion, the MLB PICC includes the centrex PICC.

11 It is important to point out, however, that the one-time reduction in access charges contained in the Modified Proposal is at least superior to the one-time reduction scheme in the Original Proposal. The Original Proposal included an arbitrary and inefficient reallocation of 25% of the costs currently recovered in interstate switching charges to flat rate common line charges paid by end users. <u>See</u> Original Proposal at Section 3.2. This reallocation would have introduced new inefficiencies by causing shared costs to be recovered in flat charges. The Modified Proposal, in contrast, would simply remove the revenues associated with the one-time rate reduction from the access charge regime entirely.

the amount by which ILEC productivity growth has outpaced the economy as a whole. As shown above, the CALLS ILECs have previously argued that the X-factor fully captures historic ILEC productivity increases. The Commission is of course in the process of determining the appropriate X-factor in the price cap proceeding.[12] Any one-time increase in the X-factor for a particular year should only be imposed to the extent that the Commission, in its reasoned judgment, determines that past X-factors have been set at unreasonably low levels. Absent proof that this is the case, the Commission should avoid the harmful consequences associated with spikes in the X-factor.

Sixth, the proposed expedited reduction in access charges also cannot be understood as somehow necessary compensation for AT&T's and Sprint's voluntary agreement to eliminate minimum usage charges for basic rate residential customers. There is no logical connection between minimum usage charges and the CALLS proposal since minimum usage charges are not even used to recover costs related to access reform or universal service. AT&T has in fact claimed that they instead recover account maintenance, customer service, and billing costs for low-volume customers.[13]

To the extent that it deems it in the public interest to eliminate minimum usage charges, the Commission should do so

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12 See Price Cap Performance Review for Local Exchange Carriers; Access Charge Reform, CC Docket Nos. 94-1, 96-262, Further Notice of Proposed Rulemaking (Nov. 15, 1999).

13 See AT&T, AT&T Usage Minimum (visited March 20, 2000) <http://www.att.com/usage_min/index.html>.

regardless of the nature of the access charge and universal service reforms adopted in this proceeding. The Commission has full authority to review IXC minimum usage charges to ensure that they are just and reasonable.[14] In addition, the Commission has already issued a Notice of Inquiry requesting comment on minimum usage charges and similar fees affecting low-volume users.[15]

Seventh, it is difficult to understand why a universal service fund of $650 million is justified. In his description of the methodology used for determining the $650 million, Joel Lubin states that he set the proposed fund based on the difference between 25% of the forward-looking cost of loops and SLC caps of $7.00 for all residential lines and single business lines and

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14 See Truth-in-Billing and Billing Format, First Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd 7492, 7528 (1999) ("[The Commission will] not hesitate to take action on a case-by-case basis under section 201(b) of the Act against carriers who impose unjust or unreasonable line-item charges."); Interexchange Carrier End-User Charges to Recover Universal Service Contributions; AT&T Tariff FCC Nos. 13 and 27 Transmittal No. 11460, Suspension Order, 14 FCC Rcd 20032 (1999) (suspending AT&T's tariff revisions raising its line item charge to recover universal service contributions).

15 Low-Volume Long-Distance Users, Notice of Inquiry, 1999 FCC LEXIS 3420 (1999). In any event, the IXCs' promises do not appear to fully address the concerns raised by consumer groups. See Communications Daily, Mar. 31, 2000 at 7 (reporting consumer concerns even in light of the increased level of commitment described by AT&T in its ex parte filed on March 30, 2000 in this proceeding). For instance, AT&T has still left itself the option of making up any loss resulting from the elimination of minimum usage charges by increasing the per minute rate in its Basic Schedule plan. See Letter from Joel E. Lubin to Magalie Roman Salas (Mar. 30, 2000).

$9.00 for multi-line business lines.[16] Using a projected line count for 2003, this methodology yielded a $613 million fund, which was rounded up to $650.

This approach raises some basic questions. To begin with, it assumes an average forward-looking residential loop cost in excess of $28.[17] Yet the average of the TELRIC-based prices for unbundled loops set by state commissions across the country is significantly less than $28. It is difficult to understand why these forward-looking cost estimates should be so different. If the state-set unbundled loop prices are any indication, there would probably be no need for the $650 million universal service fund until perhaps after SLCs are deaveraged. Indeed, if CALLS considered the forward-looking cost estimate used for its universal service fund to be reliable, it would not have proposed that the Commission conduct a separate loop cost study and port after the residential SLC cap reaches $5.00.[18] It is also not clear why it is rational to round up the size of the universal service fund from $613 million to $650 million. The Commission must surely examine these issues closely before accepting the

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16 See Declaration of Joel E. Lubin (Aug. 18, 1999) attached to the CALLS Modified Proposal.

17 That is, if the $7.00 residential SLC cap is less than 25% of the average forward looking cost of the loop, then the total average forward-looking cost for the loop must be greater than 4 times $7.00, or $28.00.

18 See Letter from Kathleen M. H. Wallman to Ms. Magalie Roman Salas (Mar. 29, 2000) (describing willingness to participate in further loop cost studies).

$650 million universal service fund proposed in the Modified Proposal.[19]

III. IF THE COMMISSION DECIDES TO USE THE MODIFIED PROPOSAL AS A MEANS OF REFORMING PRICE CAPS, ACCESS CHARGES, AND UNIVERSAL SERVICE, IT SHOULD CHANGE THE PROPOSAL TO INCREASE THE LIKELIHOOD OF EFFICIENT OUTCOMES AND CONSUMER BENEFITS

In an attempt to at least improve upon the Modified Proposal, ALTS and TWTC have developed an alternative plan for price cap, access charge, and universal service reform. The revisions to the Modified Proposal described below more effectively balance the interests of the major carriers, preserve opportunities for facilities-based entry, flow the benefits of ILEC productivity gains to all consumers, and preserve approximately the same overall level of access charge decreases as are included in the Modified Proposal.

To begin with, as mentioned, the rate restructuring proposed by CALLS for the common line basket makes good policy sense. The Commission should therefore adopt the proposed restructuring by eliminating a separate primary line residential PICC element and raising the SLC cap for those lines to $4.35.

But instead of targeting the 6.5% X-factor at ATS elements, some of which are subject to significant competition and are

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19 It should also be pointed out that the CALLS proposal would introduce onerous reporting requirements for all carriers. For example, Section 54.802 of the proposed rules under the Modified Proposal would require eligible telecommunications carriers to report line count data for each UNE zone on a quarterly basis. While at some point such reporting requirements may become necessary, this is an issue that the Commission should decide in its universal service proceeding rather than as a part of the larger proposed framework for reform at issue here.

unlikely to contain implicit subsidies, the Commission should split the application of the X-factor 50/50 between the common line basket and the ATS elements.[20] As under the current rules, all common line reductions should be applied to eliminating the common line elements that result in implicit subsidies: the CCLC and MLB PICCs.

Furthermore, in the interest of avoiding further lengthy proceedings to determine whether the 6.5% X-factor is appropriate, ALTS and TWTC would accept the application of approximately half of the proposed additional one-time reduction to access charges in the Modified Proposal (we assume the one-time amount to be approximately $400 million) as a reasonable compromise in lieu of such proceedings. However, given the absence of any basis for targeting the X-factor to certain rate elements and the harmful effect such targeting may have on efficient facilities-based entry, the additional one-time reduction should also be spread among all price-cap baskets. One appropriate way of achieving this result would be to apply the one-time reduction between the common line basket and ATS elements on the same 50/50 basis as proposed for the X-factor. This approach again would flow more money to the reduction of ATS rates than would be the case under the current rules and would expedite progress toward the target ATS per minute rates.

The ALTS/TWTC Plan also would include the establishment of a universal service fund at this time, but of a smaller size than

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20 This would still assign considerably more of the X-factor reductions to the ATS category than under the current rules.

CALLS proposes. In the Modified Proposal, the $650 million universal service fund is initially used to pay down the cross-subsidy elements (the CCLC and later the MLB PICC) in the common line basket. The Modified Proposal would not reduce the common line basket revenues by application of the X-factor. The ALTS/TWTC Plan, however, would apply 50% of the X-factor and the reduced one-time reduction to the common line basket, thus removing approximately $550 million from the implicit cross-subsidy elements, $100 million less than the CALLS universal service fund. This leaves the $100 million shortfall to be covered by a universal service fund under the ALTS/TWTC Plan. In addition, the ILECs experience a shortfall of approximately $200 million as a result of the consolidation of the primary line residential/single line business SLC and PICC into an end user rate capped at $4.35. In order to preserve the same level of CCLC and MLB PICC reductions and make the ILECs whole, the ALTS/TWTC plan would establish a $300 million universal service fund that would be portable to carriers serving the highest cost lines in a study area. Once SLCs are deaveraged in a state, however, it may be necessary to phase in increases in the universal service fund as is appropriate. The cost studies that have been agreed to by the ILEC members of CALLS can be used to fine-tune the size of the universal service fund.

The ALTS/TWTC Plan would also cause the elimination of the CCLC in the first year. ALTS and TWTC estimate that the application of the common line basket X-factor reductions combined with the universal service fund would eliminate the MLB

PICC in the third year without the need for an increase in residential SLC caps beyond $4.35. Once the implicit subsidies associated with the MLB PICC have been eliminated, the entire X-factor would be targeted at the ATS rate elements.

Under this approach, usage-based rates would decline at a more gradual pace than that proposed by CALLS. In the first year of the plan, the combination of the elimination of the CCLC and the application of one half of the X-factor reduction to the ATS rates, as well as one-half of the one-time reduction to ATS would cause usage-based rates to decline by about 21%. Of course, once the X-factor is targeted entirely to the ATS rates (after the CCLC and the MLB PICC have been eliminated), the pace of the usage-based rate reductions would be the same as under the Modified Proposal. Again, under the Modified Proposal, once the target rates of $.0055 and $.0065 are reached, the X-factor would become the level of inflation.

This alternative approach is not a perfect plan from the CLEC perspective, but rather an attempt to present a compromise that accounts at least to some extent for the public policy concerns described above. In the short term, the ALTS/TWTC Plan would deliver true consumer benefits by retaining the $4.35 SLC cap for primary line residential and single line business lines where the Modified Proposal delivers few concrete benefits for consumers. In addition, the ALTS/TWTC Plan would retain nearly 90% of the overall ILEC access charge rate reductions contained in the Modified Proposal and nearly 85% of the overall reductions in PICCs and per minute charges paid by long distance carriers contained in the Modified Proposal. But because the ALTS/TWTC Plan would distribute the rate reductions paid by IXCs to more accurately reflect productivity increases in the common line, the ALTS/TWTC Plan would deliver highly significant long term benefits for consumers. This is because the ALTS/TWTC Plan would preserve some opportunity for facilities-based entry, where the Modified Proposal would jeopardize such entry. Facilities-based entry is of course ultimately the only reliable mechanism for true reform.

IV. CONCLUSION

The Commission should reject the CALLS Modified Proposal or adopt the CALLS Modified Proposal subject to the modifications described above.

Respectfully submitted,

Brian Conboy
Thomas Jones

WILLKIE FARR & GALLAGHER
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20036
(202) 328-8000

ATTORNEYS FOR TIME WARNER TELECOM

Jonathan Askin /TJ

Jonathan Askin, General Counsel
Teresa K. Gaugler, Attorney
Association for Local Telecommunications Services
888 17th Street, N.W., Suite 900
Washington, D.C. 20006
(202) 969-2587

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EXHIBIT

CALLS vs. ALTS/TIME WARNER TELECOM ACCESS REFORM PLANS

	CALLS PLAN	ALTS/TWTC PLAN
Residential Subscriber Line Charges (SLC) and Pre-Subscribed Interexchange Carrier Charge (PICC)	Combines SLC and PICC with an increase in the SLC to $4.35.	Combines SLC and PICC with an increase in the SLC to $4.35.
Elimination of Implicit Subsidies	CCLC eliminated Multi-line Business PICC reduced by $50 million	CCLC eliminated Multi-line business PICC reduced by $350 million
Funding of Subsidy Elimination	$650 million USF SLC cap increases each year to a maximum of $6.50 by July 2003.	$300 million USF and targeting of productivity gains No further SLC increases beyond $4.35.
Universal Service Fund	Establishes $650 million USF.	Establishes $300 million USF. Fund size to be re-evaluated as part of SLC cost studies.
Lower Long-Distance Bills	Per-minute access charges reduced by $2.1 billion. Per-minute target rate of $.0055 for BOCs/GTE and $.0065 for other price-cap companies. Full productivity gains targeted at per-minute rates.	Per-minute access charges reduced by $1.3 billion, or nearly $400 million more than under current price-cap rules. Same target rates. Full productivity gains targeted at per-minute rates following elimination of implicit common-line subsidies.